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No. 00-854

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IN THE

Supreme Court of the United States

ADVANCED DISPLAY SYSTEMS, INC.
and BAO GANG WU,

Petitioners,

v.

KENT DISPLAY SYSTEMS, INC., KENT RESEARCH CORPORATION and KENT STATE UNIVERSITY,

Respondents.

ON PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

BRIEF IN OPPOSITION

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QUESTIONS PRESENTED FOR REVIEW

1. May a court of appeals review and reverse for an abuse of discretion a district court's denial of a motion for a new trial on the ground of newly discovered evidence, where the evidence at issue, including proof of that party's theft of its opponent's technology, was deliberately and wrongfully withheld by the verdict winner and its counsel throughout discovery in the proceedings below through both improper refusals to produce the information in response to legitimate discovery requests and a false assertion of privilege?

2. May a court of appeals review and reverse for an abuse of discretion a district court's denial of a motion for sanctions against a party and its counsel for their deliberate, wrongful concealment of highly relevant evidence, including proof of that party's theft of its opponent's technology, where the party and its counsel deliberately and wrongfully withheld that evidence throughout discovery in the proceedings below through both improper refusals to produce the information in response to legitimate discovery requests and a false assertion of privilege?

CORPORATE DISCLOSURE STATEMENT

This document is filed on behalf of a nongovernmental corporation, Respondent Kent Display Systems, Inc., located in Kent, Ohio. Kent Display Systems, Inc. has no parent corporation and no publicly traded stockholder that owns 10% or more of its stock. Also joining in this brief are Respondents Kent State University, a state entity also located in Kent, Ohio, and Kent Research Corporation, a nonprofit corporation also located in Kent, Ohio which serves as the licensing entity for Kent State University and which similarly has no parent corporation and no publicly traded stockholder that owns 10% or more of its stock.

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STATEMENT OF THE CASE

Respondents Kent State University ("KSU"), Kent Research Corporation ("KRC"), and Kent Display Systems, Inc. ("KDS") (collectively, "Kent") respectfully submit this brief in opposition to the petition for a writ of certiorari filed by Petitioner Advanced Display Systems, Inc. ("ADS").[1] The petition challenges a court of appeals' reversal of a district court's denial of two motions: one for a new trial and one for sanctions. Both motions centered on the same core of facts: the deliberate and wrongful concealment by ADS and its trial counsel – including the perpetuation of a false claim of privilege – of photographic and testamentary proof that ADS had surreptitiously obtained, dismantled, and photographed a Kent prototype and then used that information to develop its own competing devices which were the subject of the litigation. (A5-13.)[2] This misconduct was discovered midway through the trial, and the deposition transcript that proved it was produced to Kent only after ADS had already won a verdict as a result of these abuses. (A14.) The presiding Magistrate Judge of the United States District Court for the Northern District of Texas nevertheless refused to grant Kent a new trial or to impose sanctions against ADS or its counsel. (A15.) The United States Court of Appeals for the Federal Circuit reversed (A31), and ADS now seeks this Court's review and reversal of that decision.

ADS contends that, in reversing the lower court, the Federal Circuit improperly made "*de novo* findings" on appeal and

1. While the cover page of the petition refers to both ADS and its President, Bao Gang Wu, as "Petitioners," the petition itself and the Rule 12.3 notice that followed it purported to be submitted on behalf of only a single "petitioner," namely, ADS. *See* Petition at cover page, 1, and signature blocks. Regardless of whether he joined in the petition, however, Mr. Wu and ADS are referred to collectively herein as "ADS."

2. Citations to the Joint Appendix filed in the court of appeals refer to the prefix "JA" followed by the referenced page numbers (*i.e.*, "JA "). Citations to the Appendix to the petition for a writ of certiorari refer to the prefix "A" followed by the referenced page numbers (*i.e.*, "A ").

improperly exercised "its own 'inherent powers' " to impose the sanction of a new trial. Petition at 17, 28-30. As shown below, neither is true. The Federal Circuit's opinion repeatedly makes clear that it properly confined its analysis to the abuse-of-discretion standard of review prescribed by this Court and regional circuit precedent for the new trial and sanctions issues it addressed (*see*, *e.g.*, A22, A29), and its holdings were supported not by facts found independently on appeal, but by those found by the district court itself. (*See*, *e.g.*, A29-31, A38-39; JA61-62, JA65-66, JA88, JA97-98, JA1483-84.) ADS's attack on the Federal Circuit's decision thus amounts to no more than mere disagreement with its conclusions, conclusions that were properly reached, well supported, and required by both the record and the law. ADS's petition for a writ of certiorari should be denied, therefore, both because its challenge of the Federal Circuit's decision is baseless and because, in all events, it raises no important federal question or split among the circuits warranting the extreme measure of certiorari review.

I. THE INVENTION AT ISSUE

Although no patent issues are raised by the instant petition, the underlying action is one for patent infringement. The patent at issue (U.S. Patent No. 5,453,863, referred to herein as the "West Patent") is owned by Respondent KSU and licensed through its licensing arm, Respondent KRC, to Respondent KDS. The West patent relates to certain technology used in the manufacture of devices known as "liquid crystal displays" or "LCDs," which are devices used in countless electronic products (such as notebook computers, cellular phones, digital wristwatches, calculators, and pagers) to display the information and images that appear on their screens. (JA813, JA1019-21.) That technology was conceived and developed at KSU's Liquid Crystal Institute ("LCI"), a research facility that has been devoted to the study and analysis of liquid crystal materials for over thirty years. (JA431-33.) Since its inception in 1965, KSU's LCI has both undertaken self-supported research and been commissioned by various federal and state agencies, including

several branches of the armed forces, to advance the understanding of liquid crystal materials and to research potential applications for their use. (JA432-33.) The West patent represents one such advance and application.

In the LCDs of the West patent, visual images are created by the contrast between "cholesteric" liquid crystal material as it appears in one of two different states when sandwiched between the two glass or plastic walls of the display. (JA443-44, JA813-14.) For example, cholesteric materials can be made to reflect light in the visible spectrum ("visible materials") and thus appear colored when in one state and essentially transparent when in another. (JA434-35, JA448, JA455-56.) The invention of the West patent allows for such visible materials to be transformed from, and maintained in, either of these two states with the application of a brief electric pulse, a means which had been long believed ineffective for that purpose with the type of materials used. (JA431-36, JA441-44, JA454-55, JA471, JA813-14.)[3] The contrast between the material that is so placed in one state juxtaposed against the material that is so placed in the other thereby creates a visual image. (JA443-44, JA813-14.)

This advance was developed by Dr. John West, the Director of KSU's LCI, and one of his fellow researchers, Dr. Deng-Ke Yang, pursuant to research begun in early 1992. (JA1981-2005.) On May 4, 1993, Drs. West and Yang then filed an application for a patent relating to their discovery, which ultimately matured into the West patent on September 26, 1995. (JA2113-24.) As

3. In particular, the West patent teaches the use of visible materials that are free of any polymer additives and that have a positive (as opposed to negative) "dielectric anisotropy" (JA2113-24), which is a property that determines how a liquid crystal molecule behaves in response to an electric field. (JA454-55.) Prior to the invention of the West patent, it was widely believed that such "positive" materials could not be transformed from a colored to a transparent state with the application of an electric field (JA488-95, JA515-17), and that such "polymer-free" materials could not be sufficiently stabilized in those states to produce a lasting image. (JA738-39, JA1458-59, JA1629-30).

explained in the West patent, LCDs utilizing the technology disclosed and claimed therein can maintain indefinitely a full color image after an electric field is applied. (*Id.*; JA457-58, JA532, JA1019-20.) In short, with the power off, the image remains. (*Id.*) That energy-saving feature has led to the manufacture of numerous electronic products that conserve power and extend battery life, an advance which a variety of industries have long demanded. (*Id.*; JA2060-62.) Equally important, because such devices do not require the use of any obscuring polymer additives to produce a stable image, they are more effective, cheaper to make, and easier to use than their predecessors. (JA755-59, JA1458-59, JA2118.)

II. THE DEVELOPMENT OF THE ACCUSED DEVICES

Dr. Bao Gang Wu, a former KSU student and colleague of Dr. West, first formed ADS in February of 1992. (JA1407, JA1428-29.) The company operated on a part-time basis until March of 1993 as a distributor of equipment used to make low-end displays. (JA1408.) That all changed three months later, however, when ADS moved swiftly toward the development of a polymer-free LCD in mid-1993, just one month after Kent filed the patent application relating to its polymer-free device. (JA1979, JA7772-77, JA8121-22.)

When it started that project, ADS had no research facility and no ability to formulate a cholesteric liquid crystal material or a device in which to use it. (JA1408-09, JA7754, JA7776, JA7769-70, JA3026-48.) That situation was remedied by June of 1993, when its Vice President of R&D, Mr. Jiamini Gao, obtained the written formula for Kent's cholesteric liquid crystal and a polymer to use in that material. (JA7769-70, JA7772, JA7776-77.) Mr. Gao provided that information to Mr. Victor Zhou, then an ADS employee, who freely admits that it was unique and unavailable on the open market. (JA7776-77.) Mr. Zhou then used the formulas to duplicate Kent's liquid crystal in a matter of days, and ADS used that material to develop the polymer-free liquid crystal to be used in its own device. (*Id.*; JA7754, JA7770-74.)

With that piece under its belt, ADS's next hurdle was to learn how to make the device itself. (JA7773.) But again, that problem was short-lived. Soon after it obtained Kent's liquid crystal formula, ADS managed to obtain access to a Kent LCD. (JA7754-55, JA7773-74, JA1495.) That happened when Mr. Zvi Yaniv (then President of KDS) brought a cholesteric prototype during a visit to ADS. (*Id.*; JA1495, JA7775.) While Mr. Yaniv went to lunch with Dr. Wu, several employees of ADS, including Mr. Gao, removed the prototype from its box, disassembled it, photographed the parts, and used those pictures to order every component shown. (A7-12; JA7754-55, JA7773, JA7783-84.) With the benefit of that information, ADS determined precisely how to produce the electric pulse necessary to transform the cholesteric material in the Kent display. (JA7774, JA7777-78, JA7784.) As Mr. Zhou put it, that information might have taken ADS ten years to develop on its own. (JA7782.) Yet, within a month, ADS successfully duplicated the circuitry necessary to operate the Kent device. (JA7774, JA7784.)

Thus, just months after it started, ADS had successfully replicated Kent's polymer-free liquid crystal and its device. (JA8121-22.) With that bit of "corporate espionage" (A30), a virtual newcomer in the liquid crystal industry managed to take for itself a wealth of research and experience that took Kent over thirty years to build.

To make matters worse, on April 11, 1994, ADS then applied for a patent on its new polymer-free LCD, listing Dr. Wu and Messrs. Gao, Zhou, and Yao-Dong Ma as inventors. (JA2220.) For reasons that are not difficult to understand, that application bore a striking resemblance to the one that Dr. West had filed the year before. Like Dr. West, ADS insisted that a polymer-free LCD was a significant improvement over existing technology because it "not only simplifies display construction but, more importantly, improves the important physical properties of these devices," and that this development was unexpected in light of prior art teaching that the stability of

the images produced by these devices "is predicated specifically on the presence of a polymer additive to the liquid crystal mix." (JA2224-25.)[4]

As Mr. Zhou later explained, Dr. Wu was determined to pursue this application as quickly as possible, since he knew that Kent had already filed its own patent application on a polymer-free LCD, and he was concerned that a patent issued first to Kent might prevent ADS from obtaining its own patent on such a device. (JA7785.) And he was right. After the West patent issued, the examiner presiding over ADS's application rejected its claims directed solely at a polymer-free LCD as anticipated by Dr. West's work. (JA2296.) ADS was therefore relegated to a patent reciting narrower claims, which issued on April 29, 1997, and is now assigned to ADS. (JA2354-72.)

III. THE DISTRICT COURT PROCEEDINGS

Kent first learned that ADS was promoting a polymer-free LCD in early 1996. (JA3224.) While discussions between the parties regarding a potential license to ADS were ongoing, ADS filed (but did not serve) a complaint in their local forum (the Northern District of Texas) seeking a declaration of invalidity of the West patent. (JA110.) When those settlement discussions proved unsuccessful, KSU and KDS sued for infringement, and the cases were consolidated in Texas, with the Kent parties as nominal defendants and ADS and Dr. Wu as nominal plaintiffs. (JA111.) Discovery then proceeded over the next year and a half without any mention of the facts that ADS had copied Kent's

4. Of course, these arguments by ADS itself in support of its own patent application are in stark contrast to its current insistence that "such 'polymer-free technology' was anything but new." Petition at 9. Likewise, ADS's companion contention that the West patent's "combination of the described 'pulse' and a 'polymer-free' cell" was "fully disclosed and anticipated by the Haas '127 Patent" (*id.* at 10) is similarly defied by ADS's arguments to the United States Patent and Trademark Office in support of its own patent application, where ADS distinguished the foregoing Haas patent as "*not* utilizing a voltage pulse." (JA2284-85 (emphasis in original).)

liquid crystal formula and one of its prototypes. Instead, ADS and its counsel carefully hid that evidence – and that was no easy task.

A. Concealment of the Zhou Evidence by ADS and Its Counsel

While discovery was ongoing, ADS became embroiled in an unrelated state court action against several of its former employees, including its former Vice President, Mr. Kan Xu. (*See* JA7750.) That lawsuit led to a deposition of Mr. Zhou, the former ADS employee who had assisted in the misappropriation of Kent's technology. (*Id.*) The lawyers representing ADS in that action were from the same law firm representing ADS in the proceedings below, and the lead lawyer for ADS in both cases was the same – Mr. Kevin Nash. (JA1481-82.)

During that deposition, Mr. Zhou admitted that ADS had been unable to develop a cholesteric LCD until it obtained both Kent's liquid crystal formula and one of its devices. (JA7754-78.) He then explained how ADS employees had covertly disassembled that device, photographed its internal components, and used that information to order the parts and duplicate the device – all within a one-month time frame. (JA7774, JA7777-78, JA7784.) And, as proof, Mr. Zhou produced one of the photographs that ADS had taken of Kent's dismantled device, which was then marked and identified as an exhibit to the deposition. (JA7753-54.)

As this story began to unfold, ADS's counsel hastily attempted to terminate the deposition. (JA7772.) When that failed, he halted the testimony and placed a telephone call to the state court Judge demanding a protective order over its contents. (JA7778-79.) Instead of granting a protective order, however, the state judge suggested that the parties keep the deposition temporarily confidential pending a formal motion for a protective order to be filed by ADS. (JA7779-80.) But no such motion was ever filed. (JA8414-16) Instead, ADS dismissed the state court lawsuit soon after the Zhou deposition, and its counsel instructed the court reporter *not* to prepare a transcript

of that deposition. (JA1580-81, JA8415-16.) As for the last remaining piece of evidence – the photograph of Kent's dismantled LCD – ADS's counsel buried that too, listing it on a privilege log as "Attorney Work Product." (JA7632.) As a result, neither that photograph nor the deposition testimony was ever revealed to Kent before the case went to trial.

B. Discovery of ADS's Copying During Trial

The trial began on Monday, November 10, 1997. Mid-way through the first week, a witness whom Kent had subpoenaed to testify, Mr. Kan Xu, advised Kent's counsel that Mr. Zhou might have information that was relevant to the case. (JA1478-80.) Kent's attorneys then contacted Mr. Zhou over the weekend and, with just a day's notice and no discovery to determine the scope of Mr. Zhou's knowledge, Kent notified ADS that it would call Mr. Zhou as a witness and did so the next day. (*Id.*) True to form, ADS fought vigorously to keep that testimony from the jury. (*Id.*) First feigning ignorance about the photograph that ADS's counsel had previously designated as attorney work product, Mr. Nash then argued that he was "not sure" that Mr. Zhou knew any "relevant facts." (JA1481-84.) He then disputed that the photograph, Mr. Zhou's deposition in the state court action, and even Mr. Zhou's identity should have been disclosed to Kent in discovery. (*Id.*) The Magistrate Judge rejected all of these arguments and immediately acknowledged the critical relevance of the information that Mr. Zhou possessed. (JA1483-87.)

Thus, more than a week after the trial began and three months after Mr. Zhou's deposition was taken in the state court action, Mr. Zhou finally admitted in the briefest of terms what ADS's counsel had known for many months and what ADS itself had known for years – that ADS had obtained a Kent prototype and surreptitiously disassembled and photographed it. (JA1494-1503.) What remained concealed, however, was Mr. Zhou's deposition testimony admitting the following critical facts, including the manner in which ADS used that information to produce a device that was "based upon" Kent's device and

made in "the same" way, and the speed with which it did so, with nothing but the formula for Kent's liquid crystal and the photographs of a dismantled Kent prototype (A7-12):

- When it began the development of its polymer-free LCD, ADS had no research facility and was unable to make a cholesteric liquid crystal material or an LCD device (JA7754, JA7776, JA7769-70, JA3026-48);
- By June of 1993, ADS obtained the written formula for Kent's cholesteric liquid crystal and a polymer to use in that material (JA7769-70, JA7772, JA7776-77);
- ADS used that formula to duplicate Kent's cholesteric liquid crystal material within just a few days and, in turn, used that material to develop the polymer-free liquid crystal later used in its own device (*Id.*; JA7754, JA7770-74);
- A copy of the Photograph of Kent's dismantled display was given to a University of Texas at Dallas student who copied it to design driver circuitry for ADS's LCD product (JA7754);
- ADS used the photographs of Kent's dismantled prototype to order every component shown and then obtained those components, as well as the manufacturer's manuals relating to them (JA7754-55, JA7773, JA7778, JA7783-84);
- With the benefit of that information, ADS determined how to produce the voltage pulse necessary to transform the cholesteric material used in Kent's prototype (JA7774, JA7777-78, JA7784);
- Within a month of photographing Kent's dismantled prototype, ADS successfully duplicated the circuitry to run the device (JA7774. JA7784);
- ADS had tried repeatedly to design an LCD prior to obtaining Kent's formula and prototype but had failed (JA7754, JA7769-71, JA7776);

- ADS's display was "based upon" Kent's liquid crystal formula and its driver electronics (JA7774-75);
- "The chemistry mixture and the way they make the cell are the same." (JA7775);
- Access to Kent's drive circuitry was the key element that made the design of ADS's product possible, and it might have taken ADS ten years to develop that information on its own (JA7774, JA7782);
- ADS briefly attempted to find a different way of making an LCD that would avoid a conflict with Kent, but abandoned the effort as infeasible (JA7786).

Although Kent pleaded for the preparation and production of the Zhou deposition transcript while the trial was still underway, and although the Magistrate Judge had already acknowledged the criticality of the information it contained (JA1483), he nevertheless refused Kent's request, leaving the transcript beyond Kent's reach until after the case was submitted to the jury. (JA1580-82.) That refusal proved fatal to Kent's case. The jury was deadlocked a week after it began deliberations – specifically, on the issues of anticipation and obviousness. (JA1963, JA1968.) The district court nevertheless instructed the jurors to continue their discussions and attempt to overcome the impasse. (JA1969.) Two hours later, they returned a verdict finding the West patent invalid as anticipated and obvious, and not infringed. (JA1969-72.)

C. Kent's Post-Trial Motions

After the case was closed, Kent finally received the belatedly transcribed Zhou deposition from the state court action. Following the jury's verdict, Kent then promptly moved for a new trial based on that newly discovered evidence and for sanctions against ADS and its counsel for their wrongful concealment of it. (JA10226-29.)

During the hearing on those motions, the Magistrate Judge was unequivocal in acknowledging the wrongdoing perpetrated by ADS and its counsel in concealing the deposition of Mr. Zhou in the state court proceeding and the photograph marked as an exhibit during that deposition which further evidenced ADS's brazen theft of Kent's technology. Consistent with his comments during the trial (JA1483-84), the Magistrate Judge found outright that the deposition "was concealed" from Kent, that there were "instructions not to transcribe that deposition testimony," that "the photograph which was disclosed in a privilege log was concealed," "that there were frivolous objections made to the production of that photography," that ADS's counsel sought "an oral protective order from a State Court Judge to prevent the dissemination of that information," that they followed with an "abrupt dismissal of the State Court lawsuit," and that all of these actions were undertaken by ADS and its counsel "to prevent these facts from seeing the light of day." (A38-39; JA61-62, JA65-66, JA88, JA97-98.)

Nevertheless, despite that strong language, the Magistrate Judge denied both Kent's motion for a new trial and its request for sanctions. (JA4-7.) Regarding the former, the Magistrate Judge wrongly concluded that a new trial was not warranted because the evidence from Mr. Zhou's deposition transcript, which was received only after the trial was over, was merely cumulative or impeaching. (JA94-95.) Similarly, although the Magistrate Judge admitted to being "deeply concerned" over the improper actions of ADS and its counsel in concealing the Zhou evidence, he declined to impose any sanction at that time. (A38-39.) Instead, he opined that a new trial would be the most fitting sanction and left Kent to seek that relief from the court of appeals (A38-39; JA97-99), expressly reserving the question of whether other "appropriate sanctions" or "disciplinary action under the local rules" should be imposed or undertaken by the district court *sua sponte*. (*Id.*)

D. The Federal Circuit's Decision

The Federal Circuit issued its decision reversing the district court on May 18, 2000, and then denied ADS's request for rehearing *en banc* (which raised primarily the same arguments now urged in its petition for a writ of certiorari) on August 24, 2000. (*See* A41.) That reversal pertained to three holdings by the district court, only two of which are raised in ADS's petition for a writ of certiorari – namely, the Magistrate Judge's refusal to grant Kent a new trial on the ground of newly discovered evidence and his companion refusal to grant a new trial as a sanction.[5] First observing that its review of both questions was confined by an abuse-of-discretion standard (A22, A29), the Federal Circuit then went on to explain in detail why the Magistrate Judge's conclusions on both points could not stand.

Regarding Kent's motion for a new trial, the Federal Circuit carefully considered the Magistrate Judge's basis for denying that motion – that the withheld Zhou deposition transcript was "merely cumulative or impeaching" – and then demonstrated (after having summoned the full trial record from the district court) why that conclusion was wholly unsupported:

> Rather, Zhou's deposition contained a significant amount of material evidence that ADS prevented Kent from presenting at trial. For example, the jury did not hear Zhou's deposition testimony about how ADS obtained Kent's cholesteric formula, used that formula to duplicate Kent's cholesteric material, and then used that material in its own device; nor did the jury hear Zhou's admissions that ADS's electrical driver was essentially the same as Kent's. The jury

5. The Federal Circuit also reversed the Magistrate Judge's refusal to decide prior to trial an incorporation by reference issue raised in connection with ADS's anticipation defense and his improper submission of that issue to the jury and correspondingly erroneous jury instruction on that point. (A21-22.) Due to that error, the Federal Circuit held that a new trial on the issue of anticipation was required (*id.*), which ADS apparently no longer disputes.

> also did not hear Zhou's statements concerning the extent of ADS's failure to develop its own device or the detailed copying of Kent's prototype. Furthermore, the jury did not hear about ADS's failure to design around the claimed invention even after it disassembled and studied Kent's prototype.

(A15, A27.) With reference to the controlling law, the court then explained why this evidence constituted sufficient proof of both non-obviousness and infringement to have compelled a different verdict and, thus, warranted a new trial on both of those issues. (A24-25, A28-29.)

Regarding Kent's motion for sanctions, the Federal Circuit was similarly mindful of the findings made by the Magistrate Judge; indeed the two were in complete agreement. Just as the Magistrate Judge had found, the Federal Circuit similarly observed that ADS had wrongly refused to disclose the Zhou deposition and related photograph in response to Kent's discovery requests and that it improperly concealed that evidence with an instruction not to transcribe the deposition, a hurried dismissal of the case in which it had been taken, and a false claim of privilege with respect to the photograph:

> Any fair reading of the document request and interrogatory, coupled with ADS's duty to supplement its disclosures and responses under Rule 26(e) of the Federal Rules of Civil Procedure, required ADS to disclose the existence of the Zhou deposition and to produce the photograph of Kent's prototype. ADS, however, effectively concealed both pieces of evidence. With regard to the deposition, ADS's counsel instructed the court reporter not to prepare a transcript and then quickly abandoned the state court suit, thereby suppressing the existence of Zhou's deposition testimony. As for the photograph, which was initially produced at the deposition, ADS characterized it as "attorney work product." As a result, by preventing Kent from

> examining the photograph and inquiring about how ADS came to possess it, ADS completely sealed off Kent from discovering the existence of the Zhou deposition, much less its substance.

(A26.)

Thus, the Federal Circuit and the district court were very much on the same page regarding ADS's wrongdoing. The only difference between the two was the Federal Circuit's willingness to apply the sanction that the Magistrate Judge found appropriate but mistakenly left up to the court of appeals – a new trial. (*See* A38-39.) Thus, in keeping with this Court's opinions and the controlling Fifth Circuit precedent, the Federal Circuit correctly held that "the sanction of a new trial fits the transgression." (A31.)[6] It then "strongly encourage[d] the magistrate judge to follow through on his desire to review very carefully the conduct of ADS's counsel and to consider, within his discretion, imposing disciplinary actions and additional sanctions beyond the granting of a new trial." (A31.)

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6. *See, e.g., National Hockey League v. Metropolitan Hockey Club, Inc.*, 427 U.S. 639, 643 (1976) ("the most severe in the spectrum of sanctions provided by statute or rule must be available to the district court in appropriate cases, not merely to penalize those whose conduct may be deemed to warrant such a sanction, but to deter those who might be tempted to such conduct in the absence of such a deterrent"; reversing court of appeals and "concluding that the extreme sanction of dismissal was appropriate in this case by reason of respondents' 'flagrant bad faith' and their counsel's 'callous disregard' of their responsibilities"); *Chambers v. NASCO, Inc.*, 501 U.S. 32, 44-49 (1991) ("the inherent power also allows a federal court to vacate its own judgment" or order "outright dismissal of a lawsuit") (citing *Roadway Express, Inc. v. Piper*, 447 U.S. 752, 764 (1980)); *Chilcutt v. United States*, 4 F.3d 1313, 1321-23 (5th Cir. 1993) (intentional withholding of documents and other misconduct, for which district court "seriously considered" disciplinary action, justified the imposition of sanctions, including extreme sanction of dismissal or default) (citing *National Hockey League*).

REASONS FOR DENYING THE WRIT

ADS's challenge to the Federal Circuit's reversal on the newly discovered evidence issue is three-fold. First, purporting to rely upon this Court's decision in *United States v. Johnson*, 327 U.S. 106 (1946), ADS argues that a district court's denial of a new trial on that ground is, for all practical purposes, "not reviewable," reasoning that the findings made by a district court when denying such a motion – such as whether the evidence at issue was newly discovered or more than merely cumulative or impeaching – "*themselves are not reviewable*." Petition at 15-16 (emphasis in original). The law is otherwise. *Johnson*, as well as other opinions of this Court, make clear that a district court's assessment of evidence is fully reviewable under an abuse of discretion standard, as is the denial of a motion for a new trial itself. The Federal Circuit having expressly confined its analysis to that standard (A22), it acted well within its authority.

Second, ADS argues that, notwithstanding the Federal Circuit's explicit adherence to the correct standard, it nevertheless invoked "an improper *de novo* review of the District Court's findings" and then "arrived at" its own contrary "*de novo* findings" that the Zhou evidence was both "newly discovered" and "potentially outcome determinative," in purported violation of the Seventh Amendment's Reexamination Clause and this Court's opinion in *Gasperini v. Center for Humanities, Inc.*, 518 U.S. 415 (1996). Petition at 14-17, 20-21. Again, neither is true. On the contrary, the Magistrate Judge himself concluded that the Zhou deposition had been improperly "concealed" by ADS and was thus "new evidence" to Kent. (*See* A37-39; JA94-98 and note 12 *infra*.) Likewise, regarding the Federal Circuit's assessment that such evidence likely would have changed the outcome of the trial, the Magistrate Judge made no contrary finding and instead *assumed* that proposition for purposes of his analysis. (A37.) Thus, far from "supplanting" the district court's findings (Petition at 19), the Federal Circuit's opinion was amply supported by them.

Third, ADS argues that, in determining that such new evidence warranted a new trial on the issues of both obviousness and infringement, the Federal Circuit applied the wrong test for determining a movant's right to such relief. Again, not so. The Federal Circuit's opinion made a point of reciting and applying *verbatim* the correct test for a new trial on the ground of newly discovered evidence required under the controlling Fifth Circuit law. (A22) Indeed, even ADS has not suggested that the test recited by the court was incorrect. The Federal Circuit then correctly determined, adhering to the appropriate standard of review and with careful attention to the record and the controlling law on both obviousness and infringement, that the evidence concealed by ADS was so "compelling" on both issues that it was "potentially outcome determinative" *by itself.* (A23-29.) And, while ADS now goes to great lengths to cast doubt on that conclusion, it had no trouble seeing how "very crucial" that evidence was when it was fighting so vigorously to hide it from Kent in the first place. (*See* JA7778 and note 16 *infra.*)

Finally, ADS attacks the Federal Circuit's reversal on the sanctions issue on two grounds. It contends that the court improperly rendered "*its own de novo finding of bad faith conduct*" (purportedly "one that the District Court had refused to make") and then "*imposed its own sanctions* based on that 'finding.' " Petition at 28 (emphasis in original). Again, neither is true. The Federal Circuit's conclusion that ADS and its counsel had engaged in bad faith conduct relied explicitly on facts that the Magistrate Judge himself had found, *i.e.,* that they had wrongly "concealed" critical evidence from Kent through, among other devices, a spurious claim of privilege. (A31, A39.) And, contrary to ADS's contention, the Federal Circuit's correct conclusion that sanctions *should have been imposed* by the Magistrate Judge was not an exercise of "*its own* 'inherent powers' " (Petition at 30 (emphasis added)), but, rather, a well supported ruling that the Magistrate Judge had abused his discretion by refusing to exercise *his.* (A29-31.)

ARGUMENT

I. THE FEDERAL CIRCUIT PROPERLY REVERSED THE DISTRICT COURT'S DENIAL OF KENT'S MOTION FOR A NEW TRIAL.

A. Denial of a New Trial May be Reviewed for Abuse of Discretion.

ADS's "reviewability" challenge to the Federal Circuit's reversal on the newly discovered evidence issue hinges on a misreading of this Court's opinion in *United States v. Johnson*. According to ADS, *Johnson* effectively precludes a court of appeals from reviewing for abuse of discretion the denial of a new trial based on newly discovered evidence, because the underlying findings made by a district court when denying such a motion are themselves "*not reviewable*." Petition at 15-16 (emphasis in original). But both *Johnson* and its progeny are otherwise.

As this Court itself explained in *Johnson*, that case turned on the unremarkable proposition that "evidence which is 'merely cumulative or impeaching' is not, according to the often-repeated statement of the courts, an adequate basis for the grant of a new trial." *Mesarosh v. United States*, 352 U.S. 1, 9 (1956).[7] That holding in no way undermined a court of appeals' authority

7. While relying heavily on *Johnson*, ADS is conspicuously quiet about its facts. As this Court later noted in *Mesarosh*, *Johnson* was a less than atypical case in which a criminal defendant presented "untruthful statements by a Government witness subsequent to the trial" and then argued that his conviction was based on perjured testimony. *Mesarosh*, 352 U.S. at 9. The district court found no perjury, the court of appeals disagreed, and (after a third certiorari petition) this Court reversed. In so doing, however, it held only that the district court's credibility determination was well supported and, therefore, should not have been rejected on appeal. *Johnson*, 327 U.S. at 112-13. Thus, *Johnson* acknowledged merely the deference accorded a trial court's credibility determinations and the inappropriateness of granting a new trial to a criminal defendant who raises *solely* a credibility issue. That is a far cry from this case, where the evidence at issue was so devastating that ADS went so far as to conceal it with a false claim of privilege.

to review for abuse of discretion the denial of a new trial on the ground of newly discovered evidence. On the contrary, the *Johnson* Court noted with approval the court of appeals' treatment of the first appeal in that case, in which it reviewed that very issue to determine "whether the trial judge had abused his discretion." *Id.*, 327 U.S. at 109, 113. If anything, therefore, *Johnson* confirms the propriety of such review.

Later opinions of this Court are to the same effect. In *Mesarosh*, for example, the Court cited with approval a string of circuit court decisions in which denials of motions for a new trial on the ground of newly discovered evidence were reviewed for abuse of discretion. *Mesarosh*, 352 U.S. at 9, 13 and n.4. It then granted that very relief on appeal, without first remanding the issue to the district court because any contrary decision by the lower court would have been "unreasonable." *Id.* Seven years later, in *Shotwell Mfg. Co. v. United States*, 371 U.S. 341, 355-57 (1963), the Court itself applied an "abuse of discretion" standard to review the denial of "what in effect was a motion for a new trial on newly discovered evidence." And just recently, in *Gasperini*, the Court acknowledged that abuse-of-discretion review of a denied request for a new trial under Rule 59 is "a control necessary and proper to the fair administration of justice." *Gasperini*, 518 U.S. at 435. The applicability of that standard of review to the new trial issue raised in this case is therefore beyond dispute.[8]

Similarly unavailing is ADS's companion contention that, when engaging in such review, the Federal Circuit was

8. Indeed, until the Federal Circuit issued its decision on May 18, 2000, that issue *was* undisputed in this case. Citing *Gasperini*, ADS conceded that the Magistrate Judge's refusal to set aside the jury's verdict and his refusal to grant a new trial due to newly discovered evidence "may be reviewed for 'abuse of discretion.' " *See* Brief of Appellees 17-18, filed in the Federal Circuit on May 24, 1999. Having made that concession, ADS waived the point and is thus now precluded from asserting it as a ground for reversing the Federal Circuit. *See Pentax Corp. v. Robison*, 135 F.3d 760, 762 (Fed. Cir. 1998) (citing *Wells v. Rushing*, 760 F.2d 660, 661 (5th Cir. 1985)).

nevertheless constrained to accept the lower court's assessment of the newly discovered evidence at issue and, thus, affirm its ultimate denial of a new trial in view of that evidence. This Court has long recognized that courts of appeals are fully empowered to review for abuse of discretion a trial court's evidentiary rulings. *See, e.g., General Electric Co. v. Joiner*, 522 U.S. 136, 141 (1997) (citing cases). Indeed, the Court's "cases on the subject go back as far as *Spring Co. v. Edgar*, 99 U.S. 645, 658, 25 L. Ed. 487 (1879)." *Joiner*, 522 U.S. at 141-42.

Thus, contrary to ADS's assertion that "federal appellate courts have no right to assess the weight, persuasiveness, or credibility of evidence presented to a jury, and to use those determinations as a means to set aside jury verdicts" (Petition at 22-23), this Court has plainly held otherwise. *See Weisgram v. Marley Co.*, 528 U.S. 440 (2000). In *Weisgram*, for example, the Court affirmed not merely a court of appeals' rejection of a trial court's evidentiary ruling, but also the appellate court's determination that the verdict, in light of all other evidence presented, would have lacked the necessary proof to support it had the trial judge ruled correctly regarding the disputed evidence. *Id.* (affirming court of appeals' reversal of district court's evidentiary ruling, vacation of judgment, and entry of judgment for appellant).[9] Accordingly, contrary to ADS's unsupported contentions, the Federal Circuit was fully empowered to review for abuse of discretion *both* the Magistrate Judge's erroneous conclusion that the concealed Zhou deposition was merely cumulative or impeaching *and* whether that evidence likely would have changed the outcome of the

9. Indeed, this Court has further held that a district court's reasoning regarding the newly discovered evidence factors is itself unnecessary (and that remand for such consideration would therefore be "futile") where, as here, the record is sufficiently developed to allow an appellate court's independent resolution of the issue. *Mesarosh*, 352 U.S. at 13. *See also Devices for Med., Inc. v. Boehl*, 822 F.2d 1062, 1068 and n.6 (Fed. Cir. 1987); *Seattle Box Co. v. Industrial Crating and Packing Inc.*, 756 F.2d 1574, 1578 (Fed. Cir. 1985).

trial had it been properly disclosed to Kent in time to introduce it.

B. The Federal Circuit Properly Adhered to an Abuse of Discretion Standard.

ADS next contends that the Federal Circuit improperly departed from the abuse-of-discretion standard required by this Court's opinions in *Johnson* and *Gasperini*. According to ADS, "the Federal Circuit's analysis began with the simply astounding proposition that the court's job was one of measuring whether the newly discovered evidence is potentially outcome determinative." Petition at 17. In fact, the Federal Circuit's analysis *began* by stating correctly that it "reviews a denial of a motion for a new trial under the abuse of discretion standard." (A22.) ADS's accusation that "the Federal Circuit did not apply the 'abuse of discretion' standard posited in *Johnson*," is thus defied by the plain language of its decision. But, as importantly, the Federal Circuit's subsequent recitation and consideration of the test required of district courts to determine whether newly discovered evidence warrants a new trial (A22) signals no departure from an abuse-of-discretion standard of review. On the contrary, consideration of that test by the Federal Circuit was essential.

The question presented to an appellate court when reviewing the denial of a new trial in view of newly discovered evidence is whether the lower court's decision was "sufficiently unwarranted as to amount to an abuse of discretion." *Government Fin. Serv. One Ltd. Partnership v. Peyton Place, Inc.*, 62 F.3d 767, 770 (5th Cir. 1995). An abuse of discretion occurs when a district court makes a "clearly erroneous assessment of the evidence," bases its decision on an "erroneous view of the law," or commits a "clear error of judgment."[10] Thus, in order to determine whether the district court's denial of a new trial was "sufficiently unwarranted" in this case, the Federal Circuit was required to test the lower court's "assessment

10. *Cooter & Gell v. Hartmarx Corp.*, 496 U.S. 384, 406 (1990); *Kennedy v. Texas Util.*, 179 F.3d 258, 265 (5th Cir. 1999); *Kearns v. Chrysler Corp.*, 32 F.3d 1541, 1545 (Fed. Cir. 1994).

of the evidence," its "view of the law" applicable to that evidence, and its ultimate "judgment" to deny relief. *See* cases cited at note 10 *supra*. That analysis necessarily entails consideration of the test the district court was required to apply. Indeed, this Court has itself acknowledged the importance of such an independent analysis by a court of appeals.[11]

ADS nevertheless insists that the Federal Circuit had no authority to reverse the lower court's conclusion under that test, because it rejected none of the lower court's findings as "wholly unsupported." Petition at 16. That criticism is without substance, however, since the court's adherence to an abuse-of-discretion standard regarding the district court's ultimate conclusion necessarily implies adherence to the correct standard for reviewing its factual findings, *i.e.*, whether they were "clearly erroneous." *See Cooter & Gell*, 496 U.S. at 401. But, as importantly, as explained above, the Federal Circuit's decision was quite harmonious with the findings of the district court.[12]

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11. *See Kyles v. Whitley*, 514 U.S. 419, 440-41 (1995) (criticizing unclear materiality discussion); *Johnson*, 327 U.S. at 106 n.4 (noting with approval court of appeals' reliance upon "the frequently quoted and followed rule announced in *Berry v. Georgia*") (citing *Berry v. Georgia*, 10 Ga. 511 (1851)); *United States v. Freeman*, 77 F.3d 812, 816-17 (5th Cir. 1996) ("The Fifth Circuit applies the 'Berry' rule").

12. As noted above, immediately upon learning of Mr. Zhou, the Magistrate Judge acknowledged that the photograph produced in his deposition demonstrating ADS's theft of Kent's technology should have been disclosed to Kent in discovery. (JA1483-84.) He then went on to find that the deposition "was concealed" from Kent, that there were "instructions not to transcribe that deposition testimony," that "the photograph which was disclosed in a privilege log was concealed," "that there were frivolous objections made to the production of that photography," that ADS's counsel sought "an oral protective order from a State Court Judge to prevent the dissemination of that information" followed by an "abrupt dismissal of the State Court lawsuit," and that all of these actions were undertaken by ADS and its counsel "to prevent these facts from seeing the light of day." (JA61-62, JA65-66, JA88, JA97-98.) Each of these findings is highly supportive of the Federal Circuit's reversal on the new trial and sanctions issues.

Rather, it was the *conclusion* of the lower court in view of those facts which the Federal Circuit properly reviewed and reversed as "sufficiently unwarranted as to amount to an abuse of discretion." *See Peyton Place*, 62 F.3d at 770.

C. The Federal Circuit Considered the Correct Test for a New Trial.

Lastly, ADS argues that the Federal Circuit misapplied the three-part test for determining whether Kent was entitled to a new trial, both by making purportedly unsupported "*de novo* findings" and by applying the wrong analytical framework to those new-found facts. Petition at 17. Again, neither is true.

For example, ADS begins this attack by asserting that "the Federal Circuit's analysis assumed at its very outset – without any explanation or discussion of the matter – that the Zhou deposition transcript did in fact constitute 'newly discovered' evidence." *Id.* at 16. But, in fact, the Federal Circuit devoted more than a full page to that issue and ultimately concluded correctly that "Kent exercised due diligence throughout the discovery process, but it was powerless to unearth the Zhou deposition because ADS deliberately and intentionally withheld the deposition and the photograph of Kent's prototype." (A25-27.) ADS's attempt to characterize that conclusion as lacking "any explanation or discussion of the matter" thus disregards a substantial portion of the Federal Circuit's opinion. As importantly, that conclusion was not contrary to the Magistrate Judge's findings and, instead, was fully supported by them. Indeed, the Magistrate Judge stated outright that the Zhou deposition was "new evidence" (JA95),[13] that the photograph of Kent's dismantled prototype produced and marked during that deposition should have been disclosed in

13. ADS's purported reproduction of the district court's ruling from the bench denying Kent's motion for a new trial incorrectly omits the word "new" from the Magistrate Judge's language. (*Compare* A37 *with* Original Hearing Transcript at JA95 of the Joint Appendix submitted to the Federal Circuit (referring to "this *new* evidence") (emphasis added).)

discovery, and that the photograph and deposition were "concealed" from Kent through various improper devices. *See* note 12 *supra*. Thus, the Federal Circuit's holding that the same evidence was "newly discovered" was compelled by both the record *and* the findings of the district court.

Similarly disingenuous is ADS's challenge to the Federal Circuit's holding that the Zhou deposition was not merely cumulative or impeaching. ADS complains that the court should have left the Magistrate Judge's contrary conclusion undisturbed because certain of the "areas" addressed in those portions of the Zhou deposition which the Federal Circuit correctly identified as new and non-cumulative were purportedly touched upon in Mr. Zhou's far from complete trial testimony and the testimony of ADS's President, Dr. Wu. Petition at 24. In other words, ADS would have Kent settle for the testimony of its President *denying* any wrongdoing when there was *complete* testimony by a former ADS engineer *admitting* it. Needless to say, Kent disagrees. *See Compass Tech., Inc. v. Tseng Labs, Inc.*, 71 F.3d 1125, 1130-31 (3d Cir. 1995) ("it is plainly different in both degree and kind to have such testimony emanating from the sole representative of" the adverse party).

But, as importantly, ADS's argument ignores the many facts recited by the Federal Circuit that were *not* covered at trial, including (1) "*how* ADS obtained Kent's cholesteric formula," (2) how it "*used* that formula to duplicate Kent's cholesteric material," (3) how it "then used that material *in its own device*," (4) how "ADS's electrical driver was *essentially the same as Kent's*," (5) "*the extent of ADS's failure* to develop its own device," (6) "the *detailed* copying of Kent's prototype," and (7) "ADS's failure to design around the claimed invention *even after it disassembled and studied Kent's prototype*." (A27 (emphasis added).)[14] Given the criticality of this testimony

14. ADS's criticism that "Kent's counsel did not (for reasons unknown) cover" these matters "in her trial examination" (Petition at 21) is an unfathomable insult. The reasons are far from "unknown," (Cont'd)

and the witness who gave it (an ADS engineer who was centrally involved in the development of its technology), the Federal Circuit was compelled to reject the trial court's mistaken assessment that the Zhou deposition was "merely cumulative." *See Compass Tech.*, 71 F.3d at 1130-31 (rejecting as "unacceptable" a trial court's assessment that proposed testimony was "merely cumulative").

Finally, ADS nitpicks at the Federal Circuit's analysis regarding the probability that this evidence would have changed the jury's verdict. It argues that the court applied the wrong standard and incorrectly determined only that the contents of the Zhou deposition "potentially" (rather than "probably") would have changed the outcome of the case. Petition at 20. That too is a mischaracterization. The Federal Circuit's analysis of this issue *began* by observing that Kent's entitlement to a new trial depended upon "the *probability* that the evidence would have changed the outcome of the trial." (A22 (emphasis added).) It then correctly concluded, under that standard and the controlling case law, that the Zhou deposition satisfied that test.

Regarding obviousness, the Federal Circuit held that the Zhou deposition "provides compelling evidence" of ADS's "wholesale copying," its "repeated failures to design the claimed invention," and its inability "to design around the West patent" (even after gaining access to Kent's technology). (A23-25.) Such "*virtually irrefutable* evidence of nonobviousness," the court noted, "may often be the most probative and cogent

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(Cont'd)
and least of all to ADS. Although Kent requested immediate production of the Zhou deposition (which ADS had prevented from being transcribed), the Magistrate Judge refused to order its preparation and delivery to Kent before the trial would be completed. (JA1580-82.) Had ADS not conspired so carefully to keep that deposition from Kent (indeed, to keep it even from being transcribed), Kent's counsel would have had the opportunity to discover these facts and could have covered them in her trial examination. Indeed, that was the Federal Circuit's point. (*See* A26: "ADS completely sealed off Kent from discovering the existence of the Zhou deposition, much less its substance.")

evidence" available and, therefore, may "*establish* that an invention appearing to have been obvious in light of the prior art was not." (*Id.* at 23-24 (emphasis added".) Thus, the court correctly observed that the Zhou deposition *standing alone* was "potentially outcome determinative" on the issue of obviousness. (*Id.*) That such powerful evidence in combination with all of the other evidence of nonobviousness would probably have changed the verdict in this case – particularly before a jury that was initially unconvinced of the obviousness challenge – is true *a fortiori*.[15]

The Federal Circuit reached the same conclusion regarding infringement. Noting that "Zhou was one of the engineers who worked on ADS's device and possessed an intimate understanding of the similarities between ADS's device and the claimed invention," the court carefully weighed his admissions that ADS's device was "based upon" Kent's formula and circuitry, that the chemistry and way both parties' devices are made "are the same," and that "ADS failed to design a device that was different from the claimed invention." (A28.) It then held correctly that "Zhou's deposition was compelling evidence relating to infringement," both literal and by equivalents,

15. Searching for an issue of constitutional import, ADS argues that the Federal Circuit's consideration of this evidence resulted in an impermissible "reexamination" of the facts tried to the jury in violation of the Seventh Amendment. Petition at 20-21, 23. But there can be no "reexamination" of facts that were not tried in the first place. (*Id.* at 4-5) Here, the evidence at issue demonstrates facts that were never presented to the jury below. As importantly, while the Seventh Amendment might preclude a reviewing court from "reexamining facts" tried to a jury, it imposes no restriction on a trial court's review of such findings under appropriate standards; nor does it prohibit a court of appeals from reviewing for abuse of discretion a trial court's refusal to set aside a verdict. *See Gasperini*, 518 U.S. at 432-35. Thus, the issue properly presented to (and decided by) the Federal Circuit was not whether this new evidence disproved facts tried to a jury, but, rather, whether the trial court abused its discretion in refusing a new trial in which the jury could hear it. As this Court held in *Gasperini*, such review is fully "reconcilable with the Seventh Amendment." *Id.* at 435.

warranting a new trial. (*Id.* at 28-29.) ADS nevertheless strains to suggest that the court's language on this point somehow suggests that the Zhou deposition was "not itself relevant" to infringement. Petition at 18, 24. Not so. On the contrary, the Federal Circuit held expressly that Zhou's deposition testimony goes to the heart of infringement because it "directly addresses" the "way in which ADS's device causes the liquid crystal to switch," and "the West patent covers a particular method for stimulating the liquid crystal." (A28.) That holding is likewise irrefutable.[16]

II. THE FEDERAL CIRCUIT PROPERLY REVERSED THE DISTRICT COURT'S REFUSAL TO IMPOSE SANCTIONS.

ADS's challenge to the Federal Circuit's reversal on the denial of sanctions is similarly built on mischaracterizations. It argues that the court improperly rendered "*its own de novo finding of bad faith conduct*" – a finding that the Magistrate Judge had purportedly "*refused* to make" – and then "*imposed its own sanctions*" pursuant to "its own 'inherent powers'" in order to "shore up its decision to grant Kent a new trial." Petition at 28-30 (emphasis in original). But, again, neither is true. In fact, the Court *began* its analysis of this issue by acknowledging its

16 In making this assertion, ADS apparently refers to the Federal Circuit's observation that the Zhou deposition is "not itself evidence *of* infringement," but is nevertheless "compelling evidence relating to infringement." (A28 (emphasis added).) But that subtle distinction hardly represents a conclusion by the Federal Circuit that the deposition is "not itself relevant" to the issue. *See* Petition at 18, 24. In fact, quite the opposite. By drawing that distinction the court merely acknowledged the difference between direct and circumstantial evidence. It is hornbook law, however, that circumstantial evidence "is not only sufficient, but may also be more certain, satisfying and persuasive than direct evidence." *Moleculon Research Corp. v. CBS, Inc.*, 793 F.2d 1261, 1272 (Fed. Cir. 1986) (infringement may be proved circumstantially). ADS's counsel made that very point when he begged a state court judge for a protective order to seal off the Zhou deposition because it "*allegedly shows*" that ADS "*violated patents*" and was therefore "*very crucial*" evidence in this case. (JA7778 (emphasis added).)

adherence to "an abuse of discretion" standard of review. (A29.) It then properly reviewed and reversed the Magistrate Judge's refusal to impose sanctions in this case within the confines of that standard.

As the Federal Circuit held, ADS's development of its LCD technology "amounted to nothing short of corporate espionage," and its "counsel's strategy consisted of efforts to obfuscate, cover-up, and subvert evidence that was properly discoverable and responsive to Kent's requests." (A30.) These conclusions followed perfectly from the Magistrate Judge's assessment. In fact, he too acknowledged that the photograph of Kent's dismantled prototype which surely would have unearthed the Zhou deposition should have been disclosed in discovery, that both the photograph and deposition were "concealed" from Kent, and that ADS and its counsel had taken extreme measures – including "instructions not to transcribe" the deposition, "frivolous objections," burying the photograph on a "privilege log," a trumped-up request for a protective order "to prevent the dissemination of that information," and an "abrupt dismissal of the State Court lawsuit" – all "to prevent these facts from seeing the light of day." (JA61-62, JA65-66, JA88, JA97-98.) Contrary to ADS's assertion, these findings more than satisfied any requirement of a "bad faith" finding by the lower court. *See Chilcutt*, 4 F.3d at 1321-23 (intentional withholding of documents and other misconduct, for which district court "seriously considered" disciplinary action, thus satisfied any bad faith requirement for imposition of sanctions, including extreme sanction of dismissal or default).

Nevertheless, despite being "deeply concerned" about this misconduct, the Magistrate Judge simply took "under consideration whether or not appropriate sanctions" should later be imposed, denied Kent's Motion for Sanctions, and left Kent without redress for the manifest injustice it had suffered. (JA97.) That inaction was an abuse of discretion for two reasons. First, as both this Court and the Fifth Circuit have recognized, once a district court acknowledges such extreme misconduct as the

knowing concealment of material evidence, "the most severe in the spectrum of sanctions" should be utilized both to penalize that behavior and to deter others from repeating it. *See National Hockey League*, 427 U.S. at 643; *Chilcutt*, 4 F.3d at 1320-21 (citing *National Hockey League*); *Corpus Christi Taxpayer's Ass'n v. Corpus Christi, Texas*, 858 F.2d 973, 977 (5th Cir. 1988). But also, the Magistrate's basis for refusing Kent a new trial as a sanction was mistakenly grounded in his incorrect belief that Kent was not independently entitled to that relief under Federal Rule of Civil Procedure 59.[17] That mistake the Federal Circuit was obliged to correct.

Finally, ADS challenges the manner in which the Federal Circuit carried out its reversal, *i.e.*, by granting a new trial. According to ADS, it was beyond the Federal Circuit's province "to select the appropriate sanction, rather than leave the matter to the District Court." Petition at 30. But this argument, too, overlooks both the Magistrate Judge's scathing factual commentary and the Federal Circuit's deference to it. As even the Magistrate Judge acknowledged, while other "appropriate sanctions" or "disciplinary action under the local rules" might be necessary to address the misconduct of ADS and its counsel, and while he explicitly reserved judgment on those issues, a new trial was the *most* "appropriate" sanction in this case.

17. In denying Kent's motion for new trial as a sanction, the Magistrate Judge reasoned that, "short of granting [Kent] a new trial, I doubt that any sanction would be appropriate in this case . . . but in the final analysis . . . a new trial isn't warranted." (*See* JA97-98.) That rationale incorrectly collapsed the issue of sanctions under the court's inherent powers into its analysis under Rule 59 (which also was flawed). As ADS's own authority shows, however, a court's inherent powers allow the imposition of sanctions, including vacating its own judgment, even when other rules or statutes address the same form of relief. *See Chambers v. NASCO, Inc.*, 501 U.S. 32, 44-49, 57 (1991). The trial court's denial of sanctions was thus based on an error of law and, by definition, constituted an abuse of discretion. *Esmark Apparel, Inc. v. James*, 10 F.3d 1156, 1163 (5th Cir. 1994) (denial of sanctions based on erroneous view of the law constitutes abuse of discretion) (citing *Cooter & Gell*, 496 U.S. at 405-06).

(JA38-39.) The Federal Circuit was thus quite right to opt for that particular device, both because the Magistrate Judge had already deemed it fitting and because the controlling law required it.[18] As for other "appropriate sanctions" that the Magistrate Judge might have selected, the Federal Circuit left that issue for him to resolve on remand (A31), which he again has vowed to do.

CONCLUSION

For the foregoing reasons, the petition for a writ of certiorari to the United States Court of Appeals for the Federal Circuit should be denied.

Respectfully submitted,

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18. *See* cases cited at note 6 *supra*. *See also Klonoski v. Mahlab*, 156 F.3d 255, 274-76 (1st Cir. 1998) (ordering new trial as sanction for concealment of evidence "which resulted in 'substantial interference with the full and fair preparation' of plaintiff's case") (citing *National Hockey League*).